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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

The economy is showing surprising strength during the first quarter of this election year. Strong consumer spending and healthy growth in residential investment and business spending on new equipment is combining with the fiscal stimulus of a $200 billion federal deficit to push the growth of real or inflation-adjusted Gross National Product (GNP) to the 6 percent range, up from 4.8 percent during the fourth quarter of 1983. However, the trend should be for slower growth during the remaining three quarters of this year and through 1985 with the risk of a recession in late 1985 or early 1986.

This rapid growth of the economy is resulting in impressive gains in employment and a rapid decline in the unemployment rate. During February the unemployment rate fell another 0.2 percentage points to 7.8 percent. In fact, it is possible that the unemployment rate could fall to just above 7 percent by the end of the year.

Unfortunately, it also seems clear that this rapid growth cannot continue without some acceleration of inflation. Led by increases in food prices, the Consumer Price Index (CPI) rose at an annual rate of 7.5 percent during January. For all of 1984 the CPI should rise about 5-1/2 percent or more, up from 3.2 percent during 1983.

The strong growth of the economy and the apparent acceleration of inflation has caused increased uncertainty in financial markets resulting in some upward movement in interest rates in the past few weeks. Investors are predicting some further tightening of credit conditions by the Federal Reserve Board (FED). With this expected FED policy change already discounted into interest rates, there is some room for modest declines in rates during the second and third quarters of this year. However, unless credible deficit-reduction legislation is enacted within the next few months, interest rates should continue to rise this year and through 1985. Private credit demand, which will increase as the economy grows, will come into increasing conflict with the large and expanding credit needs of the federal government.

Real Estate Markets

Due to high levels of consumer and builder confidence, residential real estate markets remain fairly strong despite relatively high mortgage interest rates. In January sales of existing single-family homes rose 4.9 percent to a seasonally-adjusted annual rate of 2,990,000 units. During the same month housing starts rose 14.9 percent to a seasonally-adjusted annual rate of 1,915,000 units. However, some of this gain is starts postponed from December due to the severe weather.

For all of 1984, resales should total 2.95 million units while starts should total 1.80 million units. Increases in mortgage rates this year and through 1985 should cause resales and starts to retreat to 2.7 million units and 1.6 million units, respectively.

The median price of existing single-family homes sold during January was $71,900, up $2,000 over the December median price and 5.6 percent higher than a year ago. The median price of new single-family homes sold in January was $75,300, down $1,200 over December and only 2.4 percent higher than a year ago. For all of 1984 existing home prices should rise a little over 5 percent while new home prices should rise about 6 percent.

Both commercial and industrial construction should experience a moderate rebound in 1984 which should continue through 1985.

Table 1

U.S. ECONOMIC OUTLOOK

MARCH 1984

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	83:4	84:1	84:2	84:3	84 4	85:1	85:2	85:3	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,437	3,535	3,625	3,709	3 793	3,862	3,933	4,006	3,073	3,311	3,666	3,971	4,270
Percent Change	9.2	11.9	10.6	9.6	9.3	7.5	7.6	7.6	4.0	7.7	10.7	8.3	7.5
Percent Change (without inflation)	4.8	5.6	4.8	3.8	3 3	1.4	2.1	2.1	-1.9	3.3	5.4	2.5	1.6
Consumption	5.7	4.5	2.9	2.6	2.4	2.7	2.4	2.2	1.4	4.2	4.1	2.5	1.8
Durables	18.3	14.9	3.6	2.7	1.9	2.6	1.1	1.8	-0.9	11.7	10.4	2.1	1.2
Nondurables	4.1	0.9	1.9	2.1	2.0	2.7	2.7	2.0	0.5	3.2	2.6	2.3	1.4
Services	3.0	4.0	3.5	3.0	2.8	2.7	2.6	2.6	2.9	2.7	3.2	2.8	2.2
Residential Investment	2.1	17.8	5.8	3.2	-3.6	-8.1	-11.2	-7.3	-15.3	40.2	13.6	-5.2	0.7
Nonresidential Investment	20.1	4.0	7.2	7.1	6.2	5.7	5.3	5.0	-4.7	1.5	11.4	5.8	4.1
Structures	11.0	1.5	7.1	6.3	5.4	5.1	5.0	4.2	1.8	-6.7	5.1	5.2	3.5
Equipment	37.1	4.9	7.2	7.4	6.6	5.9	5.5	5.3	-7.5	5.4	14.0	6.1	4.4
Exports	7.3	5.8	4.6	5.0	5.3	6.4	6.0	5.3	-7.8	-5.4	6.1	5.6	4.3
Imports	26.1	5.6	13.2	8.4	7.6	6.7	6.9	5.0	1.4	7.0	13.8	7.1	3.9
Government Purchases	-2.7	-2.7	14.2	3.4	3.0	3.8	2.9	2.0	1.8	0.5	2.4	3.7	1.6
Consumption (% of GNP)	65.5	65.4	65.1	64.9	64.7	64.9	65.0	65.0	65.3	65.9	65.0	65.0	65.1
Residential Investment (% of GNP)	3.6	3.7	3.7	3.7	3.7	3.6	3.5	3.4	2.5	3.4	3.7	3.4	3.4
Nonresidential Investment (% of GNP)	11.5	11.5	11.6	11.6	11.7	11.8	11.9	12.0	11.2	11.0	11.6	12.0	12.3
Inventory Change ($ billions)	10.5	28.0	28.8	37.0	45.5	32.2	31.6	31.7	-24.6	-8.7	34.8	31.8	15.7
Mfg. Capacity Utilization Rate (%)	79	80	81	81	82	82	82	82	71	75	81	82	81
Auto Sales (millions of units)	9.9	10.2	10.3	10.3	10.3	10.3	10.3	10.3	8.0	9.2	10.3	10.3	10.1
Domestic (% of total)	72.7	78.8	78.9	75.5	75.6	76.9	76.6	76.2	72.3	73.8	77.2	76.2	74.3
Imported (% of total)	27.2	21.2	21.1	24.5	24.4	23.1	23.4	23.8	27.9	26.1	22.8	23.8	25.7
Manufacturing Industrial Production (% change)	10.1	9.5	5.2	3.5	3.8	2.3	2.0	2.8	-8.5	7.8	9.8	2.9	1.9
Common Market	6.7	-0.5	1.6	1.7	4.6	0.2	3.0	1.0	-1.7	0.8	2.0	2.1	1.5
Japan	8.6	11.0	12.4	7.5	3.3	5.5	5.2	4.2	0.4	3.5	10.0	5.0	2.8
Employment(millions)(civilian:household basis)	102.5	103.6	104.5	105.3	106.0	106.5	107.0	107.4	99.5	100.8	104.8	107.1	108.5
Unemployment Rate (%) (civilian)	8.5	7.9	7.7	7.5	7.4	7.4	7.5	7.6	9.7	9.6	7.6	7.5	8.1
Personal Income per Household (average)<1>	36,495	37,391	38,081	38,852	39,617	40,415	41,105	41,830	33,633	35 433	38,485	41 483	44,115
Percent Change -- Year Ago (w/o inflation)	3.2	3.9	3.6	3.6	2.4	2.0	2.1	2.0	-0.8	1.3	3.4	2.0	0.6
Personal Taxes per Household (average)	6 588	6,769	6,899	7,051	7 206	7,382	7,516	7,674	6,426	6,513	6 981	7,604	8,160
Percent Change -- Year Ago (w/o inflation)	-1.8	0.8	0.0	4.0	3.5	3.1	3.1	3.0	-2.3	-2.8	2.1	3.1	1.4
Percent of Personal Income	18.8	18.9	18.9	19.0	19.0	19.1	19.1	19.2	19.9	19.2	18.9	19.2	19.3
Disposable Income per Household (average)	29,910	30 622	31,181	31,801	32 411	33,033	33 589	34,156	27 206	28 920	31,504	33,878	35,955
Percent Change--Year Ago (w/o inflation)	4.2	4.8	4.5	3.6	2.3	1.9	2.0	1.8	-0.4	2.3	3.8	1.8	0.4
Household Interest Payments (% of total)	10.2	10.4	10.6	10.1	10.0	10.0	10.1	10.3	9.6	9.8	10.3	10.2	10.0
Net Worth per Household (average)	75,887	76,543	78 057	79,588	80,987	82 123	83,181	84,608	66,456	74 253	78,794	84 075	91 118
Percent Change -- Year Ago (w/o inflation)	4.4	2.1	0.4	0.8	1.0	1.5	0.8	0.6	-1.8	7.2	1.0	1.0	2.4
Consumer Price Inflation (CPI)	4.8	6.0	6.2	6.1	6.0	5.8	5.8	5.9	6.2	3.2	5.5	5.9	6.1
Gross National Product Inflation (GNP Deflator)	4.2	5.9	5.5	5.6	5.8	6.0	5.3	5.4	6.0	4.2	5.0	5.7	5.8
Personal Consumption Inflation	2.8	5.4	6.1	6.0	5.9	5.4	5.3	5.4	5.8	3.9	5.0	5.6	5.7
Residential Construction Inflation	-1.8	5.2	6.9	7.2	7.5	6.7	6.6	6.5	2.8	2.2	4.5	6.9	7.0
Nonresidential Construction Inflation	1.4	5.2	6.5	7.5	7.5	6.9	6.8	6.9	4.7	-0.7	4.1	7.1	7.1
Producers Price Inflation (WPI)	3.9	4.6	6.5	6.6	5.6	4.6	5.7	6.4	2.0	1.3	4.9	5.7	6.2
Compensation per Manhour (% change)	4.5	9.8	7.3	7.6	7.8	8.4	7.1	6.9	7.9	5.6	6.8	7.6	6.9
Productivity (% change)	1.2	3.1	2.1	2.4	1.7	1.5	1.2	1.2	0.0	3.1	2.5	1.6	1.1
Unit Labor Cost (% change)	3.6	6.4	5.1	5.1	5.9	6.8	5.9	5.6	7.9	2.4	4.3	5.9	5.7
Unit Capital Cost (% change)	5.7	5.2	4.9	4.7	4.6	4.6	4.5	4.5	9.5	6.9	4.9	4.5	4.6
Before Tax Corporate Profits ($ billions)<2>	233	239	252	260	266	262	262	263	190	216	254	263	271
Corporate Tax Liability	83	85	91	94	96	93	92	91	59	76	91	92	95
'Windfall Profits' Tax Receipts	9	9	9	9	9	9	9	9	16	10	9	9	9
After Tax Profits	141	146	153	158	162	161	162	163	115	130	154	162	168
Inventory Valuation Adjustment	-7	-15	-23	-28	-27	-24	-27	-31	-8	-9	-23	-29	-32
Capital Consumption Adjustment	47	54	56	59	61	68	70	73	-1	31	58	72	78
Profits from Current Production (with IVA, CCA)	181	184	186	188	195	204	205	206	106	152	189	205	213
Adjusted for Inflation (83:1 base)	176	177	176	176	180	185	184	182	109	149	177	182	179
Percent Change - Year Ago	60.8	47.0	25.0	9.4	2.4	4.5	4.1	3.4	-8.9	37.5	18.6	2.8	-1.5
Per Unit of Output (% of GNP)	5.3	5.2	5.1	5.1	5.2	5.3	5.2	5.1	3.4	4.6	5.1	5.2	5.0
Effective Corporate Tax Rate (%)<2>	32	32	33	34	33	32	31	31	37	34	33	31	31
Federal Tax Receipts (Unified basis)	598	614	789	694	654	666	855	757	609	613	688	749	820
Percent of GNP	17.4	17.4	21.8	18.7	17.2	17.2	21.8	18.9	19.8	18.5	18.8	18.9	19.2
Federal Expenditures (Unified basis)	851	860	870	830	899	942	955	912	740	803	865	949	1,042
Percent of GNP	24.8	24.3	24.0	22.4	23.7	24.4	24.3	22.8	24.1	24.3	23.6	23.9	24.4
Surplus or Deficit (Unified basis)	-253	-246	-81	-135	-245	-276	-99	-155	-131	-190	-177	-200	-222
% of GNP	7.4	7.0	2.2	3.6	6.5	7.2	2.5	3.9	4.2	5.8	4.8	5.0	5.2
% of Personal Savings	195.0	179.9	59.7	95.4	165.4	176.9	61.9	93.6	106.1	162.6	125.1	122.5	132.5
% of Net Domestic Savings	86.8	80.3	26.4	43.1	75.8	82.6	29.6	45.9	68.0	78.4	56.4	59.3	65.0

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson Hugh Graham and Dick Peach.

Table 2

REAL ESTATE AND FINANCIAL MARKETS — MARCH 1984

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	83:4	84:1	84:2	84:3	84:4	85 1	85:2	85:3	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,757	2,851	2,960	3,056	2,941	2,798	2 701	2 604	1,990	2,717	2,952	2,651	2,701
Percent Change - Year Ago	26.3	10.9	6.5	10.3	6.7	-1.9	-8.8	-14.8	-17.6	36.5	8.6	-10.2	1.9
Dollar Volume (billions)	229.4	242.1	254.7	268.3	252.1	246.3	243.4	237.2	160.2	225.8	254.3	237.8	254.4
Existing Home Prices - Median ($1000's)	70.2	72.3	73.8	75.7	74.2	76.5	78.5	79.5	67.8	70.3	74.0	78.3	82.5
Percent Change - Year Ago	4.0	5.7	5.7	6.5	5.7	5.8	6.4	5.0	2.1	3.7	5.3	5.7	5.5
Monthly Mortgage Payment (P&I, 80%. 30 yr.)	640	658	686	676	669	716	742	726	754	635	667	722	714
Percent of Household Income	22	22	22	22	21	22	23	22	28	22	22	22	20
NAR Affordability Index	85.2	85.7	85.5	85.4	88.8	86.6	84.6	83.9	68.4	82.2	86.4	85.6	88.3
New Single-Family Home Sales (thousands)	687	645	660	675	660	620	590	570	417	630	660	582	593
Percent Change - Year Ago	32.5	6.6	1.1	17.2	-3.9	-3.8	-10.6	-15.6	-4.4	50.9	4.7	-11.8	1.9
New Home Prices - Median ($1000's)	75.6	77.3	79.1	80.9	82.6	84.1	85.7	87.2	69.3	75.4	80.0	86.5	93.4
Percent Change - Year Ago	5.6	5.5	5.4	4.2	9.2	8.9	8.4	7.8	0.7	8.8	6.1	8.1	8.0
New Home Prices--Mean ($1000's, Quality Adjusted)	89.5	91.0	92.8	94.6	95.5	97.5	99.3	101.0	87.8	89.5	93.5	99.9	106.9
Percent Change - Year Ago	3.5	2.2	4.6	4.3	6.7	7.1	7.0	6.8	2.8	1.9	4.5	6.9	7.0
New Mortgage Commitments ($ billions)	170.8	176.0	178.5	180.8	181.7	175.8	167.5	159.9	64.8	165.1	179.3	166.7	173.0
Percent Change - Year Ago	80.8	22.6	15.9	-5.8	6.4	-0.1	-6.2	-11.6	8.1	154.7	8.6	-7.0	3.8
Mortgage Debt Outstanding ($ billions)	1,820	1,877	1,938	2,003	2 067	2,131	2,195	2 259	1,629	1,749	1,971	2,227	2,163
Homeowners' Equity ($ billions)	2 662	2,705	2,749	2,782	2,859	2,934	3,005	3,072	2 396	2,576	2 774	3,038	3,326
Housing Inventory (millions)	92.4	92.8	93.2	93.6	94.0	94.4	94.8	95.2	90.6	91.8	93.4	95.0	96.4
Private Housing Starts (thousands)	1,689	1,839	1,850	1,802	1,712	1,670	1,605	1,578	1,059	1,701	1,801	1,608	1,662
Single-Family	1,034	1 176	1,157	1,134	1,068	1,023	968	959	663	1,065	1,134	978	1,019
Percent of Total	61.2	64.0	62.5	62.9	62.4	61.3	60.3	60.7	62.8	62.7	62.9	60.8	61.3
Multi-Family	655	663	693	668	644	646	637	620	395	636	667	630	642
Percent of Total	38.8	36.0	37.5	37.1	37.6	38.7	39.7	39.3	37.2	37.3	37.1	39.2	38.7
Mobile Home Shipments (thousands)	305	305	307	306	304	306	303	296	240	297	305	300	308
Rental Vacancy Rate (%)	5.5	5.6	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	42.8	42.4	42.4	43.2	44.8	47.3	49.9	52.0	65.2	42.8	43.2	50.6	56.1
Office Vacancy Rate (%)<1>	12.4	11.6	11.2	10.6	10.0	9.5	9.0	8.8	8.0	11.7	10.8	9.0	8.6
Industrial Vacancy Rate (%)<1>	4.9	5.1	4.9	4.7	4.6	4.5	4.4	4.3	4.4	4.9	4.8	4.4	4.1
New Commercial Building Construction (% Ch Value)	12.1	14.7	15.7	15.7	15.5	11.4	10.6	9.5	9.0	-3.0	13.0	12.4	12.7
New Industrial Building Construction (% Ch Value)	-34.8	54.8	26.7	29.9	31.2	24.9	18.2	10.7	2.5	-24.1	10.5	22.7	17.5
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	4.9	7.1	9.3	6.8	5.3	5.6	5.2	7.3	6.6	11.0	7.6	6.2	6.6
M1 Velocity (% change)	4.1	4.5	1.2	2.6	3.8	1.8	2.2	0.4	-2.4	-3.0	2.9	2.0	0.9
M2 (% change)(FED Target 6-9%)	8.7	8.2	9.7	9.5	8.5	6.9	6.9	8.3	9.4	12.6	8.8	8.0	8.0
M2 Velocity (% change)	0.5	3.4	0.8	0.1	0.7	0.5	0.6	-0.6	-4.9	-4.4	1.8	0.3	-0.5
Monetary Base (% change)	8.1	7.1	8.0	7.3	7.1	6.8	6.8	7.0	6.6	9.1	7.6	7.0	6.5
Flow of Funds													
Supply (total)	342	351	362	375	391	401	405	411	209	282	370	409	422
Personal Savings	130	137	136	142	148	156	160	166	125	115	141	163	167
Savings Rate	5.4	5.5	5.4	5.5	5.6	5.8	5.8	5.9	5.8	4.9	5.5	5.9	5.6
Net Business Savings	105	107	106	106	110	116	115	113	37	78	107	114	114
State + Local Govt. Savings	57	63	65	66	65	62	59	59	31	51	65	60	59
Foreign Funds(current account deficit)	50	44	55	62	68	67	71	73	15	38	57	72	82
Demand (total)	423	409	238	333	436	466	286	295	160	316	354	361	339
Consumer Installment Debt(net change)	65	56	47	39	36	36	35	35	13	42	44	36	36
Commercial+Industrial Loans(net change)	13	4	8	57	66	70	72	28	23	-3	34	46	-3
Home Mortgage Debt(net change)	92	103	102	103	90	84	79	76	-7	86	99	79	84
Federal Deficit	253	246	81	135	245	276	99	155	131	190	177	200	222
Selected Interest Rates (Percent)													
Mortgage Commitment Rate (weighted average)	13.4	13.4	13.3	13.1	13.3	13.8	14.0	13.5	16.6	13.4	13.3	13.6	12.7
30 Year,Fixed-Rate	14.1	14.1	14.0	13.8	14.0	14.5	14.7	14.2	17.3	14.1	14.0	14.3	13.4
1 Year ARM	12.3	12.3	12.2	12.2	12.6	13.2	13.5	13.1	14.6	11.9	12.3	13.2	12.6
Real Mortgage Rate (weighted average)	9.2	7.5	7.8	7.5	7.5	7.8	8.6	8.0	12.2	9.3	7.6	7.9	6.8
Corporate Bond Rate (AAA)	12.4	12.5	12.4	12.2	12.5	12.9	13.0	12.4	13.8	12.0	12.4	12.6	11.7
Government Bond Rate	11.2	11.2	11.0	10.9	11.2	11.6	11.7	11.3	13.0	10.6	11.1	11.5	10.5
Real Long-term Government Bond Rate	7.0	5.3	5.5	5.3	5.4	5.6	6.4	5.9	8.6	6.5	5.3	5.8	4.6
Federal Funds Rate	9.4	9.5	9.4	9.4	9.9	10.6	11.0	10.8	12.3	9.1	9.6	10.7	10.3
3 Month Treasury Bill Rate	8.8	8.9	8.8	8.8	9.2	9.8	10.1	9.8	10.6	8.6	8.9	9.8	9.4
Real 3 Month T-Bill Rate	4.6	3.0	3.3	3.2	3.4	3.8	4.8	4.4	6.2	4.5	3.2	4.2	3.5
1 Year Treasury Bill Rate	10.0	10.0	9.9	9.9	10.3	10.9	11.2	10.8	12.3	9.6	10.0	10.9	10.3
Commercial Paper Rate	9.2	9.1	9.1	9.1	9.6	10.3	10.7	10.4	11.9	8.9	9.2	10.4	9.9
Rate on Money Market Fund Shares	9.3	9.2	9.3	9.2	9.8	10.5	10.9	10.6	12.1	9.0	9.4	10.6	10.1
Prime Rate	11.0	11.0	11.0	11.1	11.3	11.9	12.4	12.2	14.9	10.8	11.1	12.1	11.5

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.